Commonwealth of Virginia

Debt Capacity Advisory Committee

Report to the Governor and General Assembly

December 23, 2002

COMMONWEALTH of VIRGINIA
Office of the Governor

John M. Bennett
Secretary of Finance

P. O. Box 1475
Richmond, Virginia 23218

December 23, 2002

The Honorable Mark R. Warner
Governor of Virginia
State Capitol, 3rd Floor
Richmond, Virginia 23219

The Honorable Bruce F. Jamerson
Clerk of the House of Delegates
Virginia House of Delegates
State Capitol
Richmond, Virginia 23219

The Honorable Susan Clarke Schaar
Clerk of the Senate
Senate of Virginia
State Capitol
Richmond, Virginia 23219

Dear Governor Warner, Mr. Jamerson, and Ms. Schaar:

The Debt Capacity Advisory Committee (the "Committee") was established by Executive Order No. 38 in 1991 and was codified by the 1994 General Assembly (Chapter 27, Article 5, Sections 2.2-2712 through 2.2-2714). The Committee is required to annually review the size and condition of the Commonwealth's tax-supported debt and submit to you an estimate of the maximum amount of new tax-supported debt that prudently may be authorized for the next two years. In addition, the Committee is required to review annually the Commonwealth's moral obligation debt and other debt for which the Commonwealth has a contingent or limited liability. We are pleased to present our twelfth annual report.

The Debt Capacity Model

In this report, we reaffirm our use of the Debt Capacity Model as the means of calculating the Commonwealth's tax-supported debt affordability. The Model calculates the maximum amount of incremental debt that may prudently be issued by the Commonwealth over the next ten years and features an additional two years of debt issuance capacity as a reserve beyond the end of the ten-year issuance period. The reserve is used as a hedge against variations in other assumptions used in the model, such as interest rates and revenue growth. The Model uses the ratio of tax-supported debt service as a percentage of revenues as its base calculation. We reaffirm that the ratio of debt service as a percentage of revenues should be no greater than 5%. In our view, 5% is the maximum ratio consistent with maintaining the current premier credit ratings on the Commonwealth's debt. The Debt Capacity Model is attached as Exhibit A.

The concept of debt capacity management and the 5% maximum ratio were introduced in *An Assessment of Debt Management in Virginia*, a report issued by the Secretary of Finance in December 1990. The report also recommended the creation of the Debt Capacity Advisory Committee. The Debt Capacity Advisory Committee adopted the 5% maximum measure in 1991 and has fully endorsed this ratio every year since that time. The credit ratings assigned to the Commonwealth's obligations are, in part, based upon its sound debt management policies. Moody's Investors Services, in a report issued this fall, specifically referenced the Commonwealth's debt policies in affirming its Aaa rating, as follows:

> "The Aaa-rated Commonwealth...manages a complex debt structure using very specific parameters..." *(Moody's Investors Services, Global Credit Research, New Issue report, October 4, 2002)*

In 2002, the Committee reviewed the criteria that govern which liabilities are included in the Model. Certain liabilities classified for accounting purposes as tax-supported debt and/or other obligations and shown as such in the Commonwealth's Comprehensive Annual Financial Report (CAFR) do not meet the Committee's criteria for inclusion in the Model. These items include compensated absences, pension liabilities and other liabilities as shown on pages 5 and 8 of Exhibit C. The criteria are included along with other assumptions and variables included in the Model on pages 2 through 4 of Exhibit A. The Model incorporates the official revenue estimates contained in the Governor's proposed budget submitted December 20, 2002.

Moral Obligation or Contingent Liability Debt and Other Findings

The Committee also reviewed outstanding moral obligation debt and other debt for which the Commonwealth has a contingent or limited liability. The Committee reconfirmed that the Commonwealth is not unique in its use of moral obligation debt, as a number of other state issuers utilize the moral obligation pledge. The Committee reviewed the types of programs, statutory caps, outstanding amounts, and other financial data for those issuers that currently have debt outstanding that is backed by the Commonwealth's moral obligation pledge. The three issuers are the Virginia Housing Development Authority, the Virginia Public School Authority and the Virginia Resources Authority. Each of these issuers' outstanding moral obligation debt is currently within its statutory limit.

The Virginia Resources Authority requested and was granted additional moral obligation debt authorization, raising its statutory limit to $900 million from $550 million in 2001. The Authority issues moral obligation bonds under its programs to provide low-cost financing to localities for water, wastewater, solid waste, storm water, public safety, brownfields remediation and airport projects.

The Virginia Public School Authority initiated a new primary issuance program in 1997 and does not expect to issue additional moral obligation bonds. The Virginia Housing Development Authority established a new multi-family housing program in 1999 that does not carry the Commonwealth's moral obligation pledge and it expects to issue all of its multi-family housing bonds under the new indenture.

The Virginia Public School Authority is the only issuer of non-tax-supported debt that utilizes a sum sufficient appropriation as an additional credit enhancement. This represents a contingent liability for the Commonwealth. The Virginia Public School Authority issued its first series of Equipment Technology Notes utilizing the sum-sufficient appropriation in 2001, receiving a "double A plus" rating from each of the three major rating agencies.

Information on the amount of outstanding debt, statutory limits and debt ratings for moral obligation debt, and other debt for which the Commonwealth has a contingent or limited liability is shown in Exhibit D. Sensitivity analyses are also included which demonstrate the impact on tax-supported debt capacity resulting from the conversion of moral obligation debt to tax-supported debt. The sensitivity analyses are prepared using worst-case scenarios showing the impact of the conversion of all moral obligation debt. If any such debt were ever converted, however, it would occur on an issue-by-issue basis. Conversion would occur if the General Assembly appropriated funds to replenish a debt service reserve fund shortfall if requested by a moral obligation issuer. For example, an issuer would request that the Governor and General Assembly replenish the debt service reserve fund if, in the event of a default on the underlying revenue stream, the issuer was forced to draw on the debt service reserve fund to pay debt service. Given the structure of the Commonwealth's moral obligation bond programs, such an occurrence is unlikely.

The Committee also reviewed the current and historical debt position of the Commonwealth. Part of this review included other authority debt not supported by taxes. Data included in Exhibit C summarizes information considered by the Committee.

Recommendations

Historically, Virginia has followed a capital budgeting and approval process in which projects and the financing thereof have been approved during the even-year General Assembly Session during which a new biennial budget is adopted. The budget is amended, if necessary, during the odd- or second year. The Committee therefore has provided the following amounts for the current biennium since this report coincides with the 2003 General Assembly Session during which amendments to the 2002-2004 budget will be considered.

The Committee notes that the period of time between the inception of capital projects and its permanent financing can vary greatly, usually spanning several years. Therefore the Committee has determined that consideration should be given to the projected issuance schedule when making its recommendations.

1. Model Results – Tax-Supported Debt Authorization

The Committee believes that based upon the Debt Capacity Model:

- A maximum of $481.92 million of tax-supported debt could prudently be authorized by the 2003 Session of the General Assembly; and
- A maximum of $481.92 million of tax-supported debt could prudently be authorized by the 2004 Session of the General Assembly.

This maximum amount of authorization is above and beyond the tax-supported debt that is currently authorized but unissued. Included in the amount of debt that is authorized but unissued and already included in the Model are the General Obligation Bonds that the voters approved in November. The decrease in debt issuance capacity from the amounts recommended in the 2001 Report is mainly attributable to reforecasted revenues and the amount of debt authorized during the 2002 Session of the Virginia General Assembly.

The Committee notes that the average interest rates used in the Debt Capacity Model have decreased by approximately thirty basis points, or almost one-third of a percentage point, since the December 2001 Report. The Bond Buyer 11 Index is the benchmark index used in the Model. The Model uses the average of the Bond Buyer 11 Index for the last eight quarters as its base interest rate for authorized but unissued general obligation bonds and adds an additional fifty basis points for non-general obligation bonds. The Committee notes that the effect of interest rate movements over any one year is mitigated since the base rate is an average of the last eight quarters.

The Committee recognizes that it cannot predict the future level of interest rates or the pace of revenue growth and recognizes the sensitivity of the Model results to such factors. Attached as Exhibit B are sensitivity analyses that demonstrate the impact on the Model of changes in external factors such as interest rates and revenues, or internal factors such as excess capacity. The Model calculates the maximum amount of tax-supported debt that could be prudently authorized and issued based on the assumptions incorporated in the Model. It does not constitute a recommendation of the Committee that such amount actually be authorized. In the opinion of the Committee, debt issuance in excess of the amounts recommended above could result in the Commonwealth exceeding the maximum ratio of 5%. See Exhibit C for further narrative.

The Committee makes no recommendations as to which projects, if any, should be chosen for debt financing or how they should be prioritized. These decisions are most appropriately made through the budgetary and legislative processes.

2. Consider Eliminating Authorizations Not Likely to be Issued:

The Committee endorses the efforts of the General Assembly and the Governor to continue to rescind authorizations for projects that are not likely to be used. The Committee recommends that unnecessary authorizations continue to be identified and rescinded, as appropriate.

3. Alternative Financing of State Projects:

We continue to support the use of traditional financing vehicles such as the Virginia Public Building Authority and the Virginia College Building Authority for financing state projects as opposed to capital lease-supported transactions. Certain state projects have been financed in the past using local and special purpose authorities, such as industrial development authorities or redevelopment and regional housing authorities. Due to the structure of such financings, they often result in higher financing costs than if the financing had been completed through an established state program. In such cases, the Commonwealth has limited control of the process, however such bonds are normally considered tax-supported debt and are included in the Model because the Commonwealth is responsible for debt service payments over the life of the bonds.

4. Moral Obligation and Contingent Liability Debt:

We make no specific recommendation on the programs or levels of the statutory caps for the three issuers currently utilizing the moral obligation pledge of the Commonwealth.

Conclusion

We trust this report and our recommendations are useful as we move forward together into the 2003 Session of the General Assembly. It has been our pleasure to advise you on including the concepts of debt affordability and debt capacity management into the Commonwealth's debt management programs. The Commonwealth of Virginia has become an acknowledged leader among states in the area of debt capacity management, and is repeatedly held out as an example of how the process should work.

Sincerely,

John M. Bennett, Chairman

Walter W. Craigie

David T. Ralston, Jr.

Jody M. Wagner

Philip A. Leone

Walter J. Kucharski

Richard D. Brown

Attachments

Exhibit A

The Debt Capacity Model

Commonwealth Debt

- Rating agencies view control of tax-supported debt as one of four key factors affecting credit quality.

  - control of debt burden
  - economic vitality and diversity
  - fiscal performance and flexibility
  - administrative capabilities of government

- Virginia's goal is to maintain AAA/Aaa/AAA ratings for General Obligation debt.

  - Commonwealth's "AAA" rating reaffirmed by Fitch Ratings, Moody's and Standard & Poor's (October 2002)

- Definition of tax-supported debt.

  - debt service payments made or ultimately pledged to be made from general government funds
  - corresponds with rating agency definition
  - contrast with debt not supported by taxes such as moral obligation debt

Debt Capacity Model
General Observations and Assumptions

- Virginia's Debt Affordability Model:
  - Debt Affordability Measure

    $$\frac{\text{Tax-Supported Debt Service}}{\text{Revenues}} \leq 5\%$$
  - 10-year issuance period
  - Incorporates currently authorized but unissued debt
  - Blended revenue growth rate
  - Term and structure:
    - 20-year bonds
    - Assumed interest rate of 5.05% for 9(b) and 9(c) General Obligation debt. 9(d) debt has an assumed interest rate of 5.55%.
    - Level debt service (except 9(b) debt)
    - 9(b) General Obligation debt is amortized on a level principal basis
  - Actual debt service of all issued tax-supported debt, including capital leases, installment purchases and regional jail reimbursement agreements (see page A-3 for liability inclusion criteria).
  - Blended Revenues:
    - General fund revenues and state revenues in Transportation Trust Fund added together, plus transfers of ABC and Lottery profits. For purposes of the Model, 9(c) revenues and debt service of self-supporting projects are offset and have a neutral impact on debt capacity.
  - Interest Rates:
    - Assumed issuance of authorized but unissued tax-supported debt and associated debt service, computed using estimated interest rates based on the average of the last eight quarters of The Bond Buyer 11 Bond Index for general obligation debt 9(b) and 9(c), and a 50 basis point higher rate for 9(d) debt.

Debt Capacity Model
General Observations and Assumptions

Debt Capacity Advisory Committee
Liabilities included in the Debt Capacity Model

1) Outstanding tax-supported debt as determined by the DCAC.

    - General obligation bonds (Section 9(a), 9(b), and 9(c)).
    - Obligations issued by the Commonwealth Transportation Board or Virginia Port Authority that are secured, in whole or in part, by the Transportation Trust Fund.
    - Obligations issued by the Virginia Public Building Authority and the Virginia College Building Authority secured, in whole or in part, by general fund appropriations.
    - Obligations payable under regional jail Reimbursement Agreements between the Treasury Board and localities, regional jail authorities or other combination of localities.
    - Capital leases (80% of total of first year amounts in Commonwealth CAFR for both primary government and component units).
    - Installment purchases (80% of total of first year amounts in Commonwealth CAFR for both primary government and component units).
    - Obligations for which the debt service is paid from amounts representing payments received from the Commonwealth on a capital lease.

2) Authorized but unissued tax-supported debt as determined by the DCAC.

    - The issuance of obligations to fund a project(s) must be authorized by an Act of the General Assembly (either an Act specifically authorizing the issuance of debt, or Appropriation Act language) with no contingency for subsequent General Assembly approval. If obligations are authorized but will require further action by the General Assembly before they can be issued, then such obligations will not be included in the Model. The practical application of this rule will be that if debt can be issued for a project without any further action on the part of the General Assembly, such debt will be considered as authorized for issuance.

Debt Capacity Model
General Observations and Assumptions

Debt Capacity Advisory Committee
Liabilities included in the Debt Capacity Model

3) That portion of outstanding moral obligation debt for which the underlying debt service reserve fund has been utilized to pay all or a portion of debt service and for which the General Assembly has appropriated funds to replenish all or a portion of such debt service reserve fund as requested by the moral obligation issuer.

- In the event that a moral obligation issuer has experienced an event of a default on the underlying revenue stream and such issuer has been forced to draw on the debt service reserve fund to pay debt service, the Committee shall immediately meet and review the circumstances surrounding such event and report its findings to the Governor and the General Assembly.

- In the event this section is invoked, the Committee's Report to the Governor and General Assembly shall include one Model scenario showing annual tax-supported debt capacity with inclusion of the moral obligation debt (or portion thereof) in question.

- Inclusion of the debt in the Model is in no way intended to bind the Governor or General Assembly to make future appropriations to replenish future draws on such debt service reserve fund(s).

- The subject debt will be removed from the Model once the General Assembly has not appropriated funds to replenish such debt service reserve fund(s).

Debt Capacity Model

Currently Authorized Tax-Supported Debt Issuance Assumptions

(Dollars in Millions)

	9(b)	9(c) Higher Education	VPBA Projects	VPBA Jails & Juv Det	VCBA 21st Century Equipment	VCBA 21st Century Projects	9(d) Transportation	Other Long-Term Obligations	Total
Authorized & Unissued as of December 31, 2002	$ 1,019.0	$ 128.1	$ 256.0	$ 54.8	$ 70.0	$ 297.9	$ 97.1	$ -	$1,922.9
Assumed Issued(1):									
FY 2003	-	-	-	-	-	-	-	-	-
FY 2004	125.0	64.1	-	29.5	35.0	40.0	75.0	-	368.6
FY 2005	175.0	64.1	44.0	19.9	35.0	130.0	22.1	-	490.1
FY 2006-2011	719.0	-	212.0	5.4	-	127.9	-	-	1,064.2
Total	1,019.0	128.1	256.0	54.8	70.0	297.9	97.1	-	1,922.9
Authorized Debt Assumed Unissued	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

(1) Debt is assumed issued when the first full year of debt service is paid.

Debt Capacity Model

DEBT CAPACITY MODEL
(Dollars in Millions)
December 20, 2002

Debt Capacity Maximum Ratio

Debt Service as a % of Revenue = **5.0%**

Fiscal Year	[1] Blended Revenues	[2] Base Capacity to Pay Debt Service	[3] 9(c) Revenue Equal to Debt Service	[4] Total Capacity to Pay Debt Service	[5] Annual Payments for Debt Service on Debt Issued	[6] Annual Payments for Debt Service on All Planned Debt Issuances	[7] Actual & Projected Debt Service as a % of Revenues	[8] Net Capacity to Pay Debt Service	[9] Amount of Additional Debt that may Be Issued	[10] Debt Service on the Amount of Additional Debt that may Be Issued	[11] Remaining Capacity to Pay Debt Service	[12] Total Debt Service as a % of Revenues
Actual 1996	8,203.92	410.20	N/A	410.20	254.90	N/A	3.11%	155.30	N/A	N/A	155.30	3.11%
Actual 1997	9,088.43	454.42	N/A	454.42	274.25	N/A	3.02%	180.17	N/A	N/A	180.17	3.02%
Actual 1998	9,753.64	487.68	N/A	487.68	317.53	N/A	3.26%	170.15	N/A	N/A	170.15	3.26%
Actual 1999	10,728.92	536.45	N/A	536.45	325.48	N/A	3.03%	210.96	N/A	N/A	210.96	3.03%
Actual 2000	11,875.81	593.79	N/A	593.79	344.43	N/A	2.90%	249.36	N/A	N/A	249.36	2.90%
Actual 2001	12,283.12	614.16	N/A	614.16	395.54	N/A	3.22%	218.62	N/A	N/A	218.62	3.22%
Actual 2002	12,003.78	600.19	N/A	600.19	413.58	N/A	3.45%	186.61	N/A	N/A	186.61	3.45%
2003	11,911.70	595.59	66.88	662.46	309.79	48.69	2.45%	303.99	**0.00**	0.000	303.99	2.45%
2004	12,482.76	624.14	71.82	695.96	421.85	83.83	3.48%	190.28	**481.92**	40.600	149.68	3.80%
2005	13,071.90	653.60	72.34	725.94	401.13	134.56	3.54%	190.25	**481.92**	81.200	109.05	4.17%
2006	13,673.20	683.66	69.27	752.93	376.60	169.04	3.48%	207.30	**481.92**	121.799	85.50	4.37%
2007	14,260.80	713.04	67.28	780.32	373.47	188.43	3.47%	218.42	**481.92**	162.399	56.02	4.61%
2008	14,951.40	747.57	66.78	814.35	361.61	206.93	3.36%	245.81	**481.92**	202.999	42.81	4.71%
2009	15,649.92	782.50	60.85	843.35	358.29	216.36	3.28%	268.70	**481.92**	243.599	25.10	4.84%
2010	16,386.40	819.32	55.34	874.66	334.24	207.68	2.97%	332.74	**481.92**	284.199	48.54	4.70%
2011	17,238.70	861.94	50.87	912.81	321.37	207.43	2.77%	384.00	**481.92**	324.799	59.21	4.66%
2012	18,137.17	906.86	44.46	951.32	305.42	207.42	2.58%	438.48	**481.92**	365.398	73.08	4.60%

10 Year Average:	$433.73	Excess Capacity:	$867.48
			2.0001

[1] Revenues include the actual fiscal year revenues per the Annual Reports of the Comptroller (1996-2002), the December Standard and Economy.com Forecast of the General Fund, transfers from the Virginia Lottery and the Alcoholic Beverage Control Board, dated December 20, 2002, and certain revenues from the Transportation Trust Fund official revenue forecasts as of October 2002.

[2] Base Capacity to Pay Debt Service equals 5% of the Revenues listed in Column [1].

[3] Self-supporting 9(c) Revenue Equal to 9(c) Debt Service.

[4] Total Capacity to Pay Debt Service equals Column [2] plus Column [3].

[5] Equals the annual payments of principal and interest for all currently outstanding tax-supported debt issued through December 31, 2002.

[6] Equals the annual estimated payments of principal and interest for all currently authorized tax-supported debt planned for issuance within the next ten fiscal years. See Assumed Issuances of Currently Authorized but Unissued Tax-Supported Debt. Also includes debt service for long-term capital leases, installment purchase obligations and regional jail reimbursements.

[7] Equals annual payments for debt service on debt issued and planned debt issuances divided by Revenues. 9(c) Revenues and debt service are treated as offsetting.

[8] Equals the amount of revenue available to pay debt service after principal and interest on all currently outstanding and all planned issuances of tax-supported debt has been paid. Column [4] - Column [5] -Column [6]. 9(c) Revenues and debt service are treated as offsetting.

[9] Equal to annual amount of additional principal that may be issued without violating the parameters of the model.

[10] Equal to annual amount of principal and interest to be paid on Column [9].

[11] Equals Column [8] minus Column [10].

[12] Equals the sum of all debt service payments divided by Revenues. (Column [5] + Column [6] + Column [10]) / Column [1]. 9(c) Revenues and debt service are treated as offsetting.

Debt Capacity Model

DEBT CAPACITY MODEL REVENUE DATA
December 20, 2002
(Dollars In Millions)

Fiscal Year	General Fund	Transportation Trust Fund (10)	General Fund Growth	Transportation Trust Fund Growth	ABC Profit Transfer	Lottery Profit Transfer	Total Revenue (7)	Blended Revenue Growth Rate (8)
Actual 1992	5,623.21 (1)	425.37 (3)	1.27% (1)	1.24% (3)	23.73 (1)	290.80 (1)	6,363.12	1.22%
Actual 1993	6,134.57 (1)	450.72 (3)	9.09% (1)	5.96% (3)	26.82 (1)	297.00 (1)	6,909.11	8.58%
Actual 1994	6,503.76 (1)	494.30 (3)	6.02% (1)	9.67% (3)	20.73 (1)	303.50 (1)	7,322.29	5.98%
Actual 1995	6,881.12 (1)	546.50 (3)	5.80% (1)	10.56% (3)	19.01 (1)	311.60 (1)	7,758.23	5.95%
Actual 1996	7,283.56 (1)	561.76 (3)	5.85% (1)	2.79% (3)	26.00 (1)	332.60 (1)	8,203.92	5.74%
Actual 1997	8,133.55 (1)	588.08 (3)	11.67% (1)	4.69% (3)	23.80 (1)	343.00 (1)	9,088.43	10.78%
Actual 1998	8,811.04 (1)	603.00 (3)	8.33% (1)	2.54% (3)	20.70 (1)	318.90 (1)	9,753.64	7.32%
Actual 1999	9,737.70 (1)	643.82 (3)	10.52% (1)	6.77% (3)	25.50 (1)	321.90 (1)	10,728.92	10.00%
Actual 2000	10,831.53 (1)	689.78 (3)	11.23% (1)	7.14% (3)	30.20 (1)	324.30 (1)	11,875.81	10.69%
Actual 2001	11,160.73 (1)	753.29 (3)	3.04% (1)	9.21% (3)	28.10 (1)	329.40 (1)	12,271.52	3.33%
Actual 2002	10,743.02 (1)	749.33 (4)	-3.74% (1)	-0.53% (4)	25.40 (1)	367.20 (1)	11,884.95	-3.15%
2003	10,780.80 (2)	756.30 (4)	0.35% (2)	0.93% (4)	10.90 (2)	363.70 (2)	11,911.70	0.23%
2004	11,337.90 (2)	766.46 (4)	5.17% (2)	1.34% (4)	7.00 (2)	371.40 (2)	12,482.76	4.79%
2005	11,885.10 (2)	808.40 (4)	4.83% (2)	5.47% (4)	7.00 (2)	371.40 (2)	13,071.90	4.72%
2006	12,459.40 (2)	835.40 (4)	4.83% (2)	3.34% (4)	7.00 (2)	371.40 (2)	13,673.20	4.60%
2007	13,021.40 (2)	861.00 (4)	4.51% (2)	3.06% (4)	7.00 (2)	371.40 (2)	14,260.80	4.30%
2008	13,680.10 (2)	892.90 (4)	5.06% (2)	3.70% (4)	7.00 (2)	371.40 (2)	14,951.40	4.84%
2009	14,356.30 (2)	915.22 (6)	4.94% (2)	2.50% (6)	7.00 (2)	371.40 (2)	15,649.92	4.67%
2010	15,069.90 (2)	938.10 (6)	4.97% (2)	2.50% (6)	7.00 (2)	371.40 (2)	16,386.40	4.71%
2011	15,898.74 (5)	961.56 (6)	5.50% (5)	2.50% (6)	7.00 (9)	371.40 (9)	17,238.70	5.20%
2012	16,773.18 (5)	985.59 (6)	5.50% (5)	2.50% (6)	7.00 (9)	371.40 (9)	18,137.17	5.21%

(1) Annual Reports of the Comptroller, FY 1992-2002.
(2) The December Standard and Economy.com General Fund Forecast for FY 2003-2010, dated December 20, 2002.
(3) Department of Motor Vehicles.
(4) Department of Taxation.
(5) Flat growth rate of 5.50% for years 2011-2012, per Department of Taxation on December 17, 2002.
(6) Flat growth rate of 2.50% for years 2009-2012, per Department of Taxation on December 17, 2002.
(7) Total Revenue = GF + TTF + ABC + Lottery Revenues.
(8) Blended Revenue Growth Rate = (Current FY Total Revenue / Prior FY Total Revenue) - 1.
(9) FY 2011 - 2012 based on FY 2004 - 2010 Forecasts per December Standard and Economy.com General Fund Forecast, dated December 20, 2002.
(10) Does not include Highway Maintenance and Operating Fund, Federal Grants and Contracts or Toll Revenues.

Debt Capacity Model

Annual Debt Service Requirements and Other Long-Term Obligations
Outstanding As of June 30, 2002 Plus Fiscal Year 2003 Issuance Through December 31, 2002*
(Dollars in Thousands)

Fiscal Year Ending June 30	General Obligation Debt Sections 9(a), 9(b) and 9(c)	Other Tax-Supported Debt Section 9(d)	Capital Lease and Installment Purchases	Regional Jail Reimbursements	Debt Service on Planned Issuances	Debt Service on Unallocated Debt Capacity	GRAND TOTAL
2003	$ 115,542	$ 194,248	$ 45,049	$ 3,637	$ 0	$ -	$ 358,476
2004	121,208	300,642	45,049	3,634	35,148	40,600	546,281
2005	115,430	285,700	45,049	3,634	85,873	81,200	616,885
2006	111,648	264,951	45,049	3,635	120,354	121,799	667,437
2007	108,066	265,406	45,049	3,633	139,745	162,399	724,297
2008	105,985	255,626	45,049	3,630	158,248	202,999	771,538
2009	98,482	259,812	45,049	3,634	167,674	243,599	818,249
2010	91,334	242,904	45,049	3,632	159,004	284,199	826,121
2011	85,218	236,155	45,049	3,635	158,747	324,799	853,602
2012	77,143	228,279	45,049	3,638	158,729	365,398	878,237
TOTAL	$ 1,030,056	$ 2,533,724	$ 450,488	$ 36,342	$ 1,183,522	$ 1,826,992	$ 7,061,124

* Preliminary and unaudited

The Debt Capacity Model

Parameters of the Model

(1) **Blended Revenues** include all general fund revenues (exclusive of transfers), ABC and Lottery profits transferred to the general fund and state tax revenues in the Transportation Trust Fund.

(2) **Base Capacity to Pay Debt Service** is calculated as the product of the Debt Capacity Maximum Ratio and Revenues. [Column 2 = Column 1 x .05]

(3) **9(c) Revenues** represents 9(c) revenue equal to debt service on outstanding 9(c) debt.

(4) **Total Capacity to Pay Debt Service** is calculated as the Base Capacity plus 9(c) revenues equivalent to 9(c) debt service. It represents the maximum level of debt service allowed given the 5% debt service/revenues ratio. [Column 4 = Column 1 x 5%+ Column 3]

(5) **Annual Payments for Debt Service on Debt Issued** is actual debt service on all tax-supported debt outstanding at the end of the most recent fiscal year and on any issuance to date since fiscal year end.

(6) **Annual Payments for Debt Service on All Planned Debt Issuances** is the estimated amount of debt service for currently authorized and unissued tax-supported debt assumed to be issued within the ten-year period.

(7) **Actual and Projected Debt Service as a % of Revenues** is the sum of Annual Payments for Debt Service on Debt Issued and Annual Payments for Debt Service on All Planned Debt Issuances divided by Revenues. 9(c) Revenues and 9(c) Debt Service are treated as offsetting.

The Debt Capacity Model (continued)

Parameters of the Model

(8) **Net Capacity to Pay Debt Service** is Total Capacity to Pay Debt Service less Annual Payments for Debt Service on Debt Issued and Annual Payments for Debt Service on All Planned Debt Issuances. [Column 8= 4-5-6]

(9) **Amount of Additional Debt that May Be Issued** is the amount of additional tax-supported debt (above and beyond that which is currently authorized but unissued) that may be issued in any given year without exceeding Overall Capacity to Pay Debt Service.

(10) **Debt Service on the Amount of Additional Debt that May Be Issued** is the estimated amount of debt service for the Additional Debt that may be Authorized and Issued.

(11) **Remaining Capacity to Pay Debt Service** is Net Capacity to Pay Debt Service less Debt Service on the Amount of Additional Debt that may be Authorized and Issued. [Column 11=8-10]

(12) **Total Debt Service as a % of Revenues** is the sum of Annual Payments for Debt Service on Debt Issued, Annual Payments for Debt Service on All Planned Debt Issuances and Debt Service on the Amount of Additional Debt that may be Authorized and Issued, divided by Revenues and 9(c) Revenues.

The Debt Capacity Model (continued)

Parameters of the Model

- Model solves for annual capacity, above and beyond authorized amounts assumed issued for the next ten fiscal years at the 5% debt service/revenues level over a ten-year period.

  $481.92 million is equal annual issuance capacity.

  – debt service/revenues ratio rises to a maximum of 4.84% in FY 2009

  – projected issuance never reaches 5% capacity and two years excess capacity is maintained at end of ten-year period

- Two years of excess capacity is a function of conservatism.

Exhibit B

The Debt Capacity Model Sensitivity Analysis

The Debt Capacity Model Sensitivity Analysis

Excess Capacity Sensitivity

- Model solution provides for **two years of excess capacity** remaining at end of the ten-year Model period which results in the following annual debt capacity:

  2 Year Excess Capacity $481.92 million

- If the Model solution is altered to reduce the two years of excess capacity to **one year of excess capacity**, the following annual debt capacity figures are produced:
  - Debt service as a percentage of revenues peaks at 4.98% in fiscal year 2009.
  - $525.73 million of annual debt capacity is available for the ten-year Model period.

- If the Model solution is altered to reduce the two years of excess capacity to **no excess capacity**, the following annual debt capacity figures are produced:
  - Debt service as a percentage of revenues peaks at 4.99% in fiscal year 2009.
  - $530.03 million of debt capacity is available in fiscal years 2004 through 2009. Annual debt capacity increases to $674.86 million in fiscal years 2010 through 2012.

The Debt Capacity Model Sensitivity Analysis

Revenue Sensitivity

- If the Model solution is altered to increase or decrease General Fund revenues, the following incremental annual debt capacity changes are produced:

For each change of $100 million per year	**$5.50 million**
For each 1% change of revenues per year	**$9.22 million**

Interest Rate Sensitivity

- If the Model solution is altered to change interest rates, the following annual debt capacity figures are produced:

Add 100 basis points to base rate	**$439.26 million**
Subtract 100 basis points from base rate	**$530.58 million**

Exhibit C

Background Information

Background

Creation of the Debt Capacity Advisory Committee was recommended in *An Assessment of Debt Management in Virginia*, December 1990. The Committee was originally created in September 1991, by Executive Order #38. The Committee was subsequently codified under Chapter 43 of the 1994 Virginia Acts of Assembly, as amended.

The Committee's mandate is to annually review the size and condition of the Commonwealth's tax-supported debt and submit to the Governor and the General Assembly before January 1, an estimate of the maximum amount of new tax-supported debt that prudently may be authorized for the next biennium (Section 2.2-2714 Code of Virginia). This estimate is advisory and in no way binds the Governor or the General Assembly.

In developing its annual estimate and in preparing its annual report, the Committee shall, at a minimum, consider:

- the amount of tax-supported debt that, during the next fiscal year and annually for the following nine fiscal years, will be outstanding and the amount of tax-supported debt which has been authorized but not yet issued;
- a projected schedule of affordable, state tax-supported debt authorizations for the next biennium;
- projected debt service requirements during the next fiscal year and annually for the following nine fiscal years based on existing outstanding debt, previously authorized but unissued debt, and projected debt authorizations;
- the criteria that recognized bond rating agencies use to judge the quality of Commonwealth bond issues;

Background (Continued)

- any other factor that is relevant to (i) the ability of the Commonwealth to meet its projected debt service requirements for the next two fiscal years; (ii) the ability of the Commonwealth to support additional debt service in the upcoming biennium; (iii) the requirements of the statewide capital plan; and (iv) the interest rate to be borne by, the credit rating on, or any other factor affecting the marketability of such bonds; and
- the effect of authorizations of new tax-supported debt on each of the considerations listed above.

The Committee is also required to annually review the amount and condition of moral obligation debt and other debt for which the Commonwealth has a contingent or limited liability and make recommendations to ensure the prudent use of such obligations.

In addition, the Committee is also required to review the amount and condition of Commonwealth obligations that are not general obligations or moral obligations, and when appropriate, recommend limits on such additional obligations to the Governor and to the General Assembly.

Review of the December 2001 Report

The Committee issued its eleventh annual report to the Governor and the General Assembly on December 21, 2001. The report addressed the following issues:

- Reaffirmed the use of debt service on tax-supported debt and related long-term obligations as a percentage of revenues as the debt affordability measure used in Virginia's Debt Capacity Model. In addition, reaffirmed a maximum ratio of debt service as a percentage of revenues of 5%.

- Concluded that the Commonwealth could issue approximately $628 million of tax-supported debt in each year from fiscal year 2003 through fiscal year 2011 above and beyond tax-supported debt already outstanding or authorized, while still holding the ratio to tax-supported debt service as a percentage of revenues below 5%.

- Recommended that $628 million to $1.256 billion of tax-supported debt could be prudently authorized by the 2002 Session of the General Assembly and advised that any authorization in excess of the stated range should acknowledge that issuance is limited to $628 million per year.

- Made no recommendation as to which projects, if any, should be chosen for debt financing or how they should be prioritized. Reaffirmed that this decision was most appropriately made through the budgetary and legislative processes.

- Continued to recommend that Cabinet Secretaries work with the Secretary of Finance to develop a proposal for rescinding unnecessary authorizations for consideration in the 2002 General Assembly Session.

Review of the December 2001 Report (Continued)

- Continued to recommend the use of financing processes which promote the lowest possible cost of funds to the Commonwealth by by utilizing traditional financing vehicles such as the Virginia Public Building Authority and the Virginia College Building Authority whenever appropriate.

- Reviewed outstanding moral obligation debt and other debt for which the Commonwealth has a contingent or limited liability. The Committee reconfirmed that the Commonwealth is not unique in its use of moral obligation debt, as a number of other state issuers utilize the moral obligation pledge. The Committee continued to review the types of programs, statutory caps, outstanding amounts and other financial data for certain other states that utilize moral obligation bond programs and compared these to Commonwealth issuers. The Committee recommended no changes to either program and recommended no change to levels of statutory caps for the three issuers currently utilizing the moral obligation pledge of the Commonwealth.

- Reviewed the treatment of 9(c) General Obligation bond revenues in the Model and determined that the current treatment does not properly offset 9(c) revenues and 9(c) debt service as directed by the Committee in 1995. The Committee approved a technical correction to the Model so that 9(c) revenues and 9(c) debt service are offset for the purposes of the DCAC Model provided that the projects remain self-supporting.

- Reviewed the treatment of Lottery transfers as a component of the Model and determined that the current treatment is appropriate and consistent with the rating agencies' treatment of the components of a state's overall revenue system.

Commonwealth Debt (per the Comprehensive Annual Financial Report, dollars in thousands)

	As of June 30, 2002	As of June 30, 2001
Tax-Supported Debt		
9(b) General Obligation [1]	$ 451,700	$ 486,310
9(c) General Obligation - Higher Education	376,462	345,154
9(c) General Obligation - Transportation	117,992	126,319
9(c) General Obligation - Parking Facilities	9,605	10,325
Commercial Paper	0	0
Commonwealth Transportation Board	1,043,900	916,835
Virginia Public Building Authority	958,141	994,801
Virginia Port Authority	94,060	94,060
Virginia College Building Authority - Equipment	9,165	31,710
Virginia College Building Authority - 21st Century	354,890	258,120
Innovative Technology Authority	10,590	11,120
Virginia Biotechnology Research Park Authority	87,245	28,235
Transportation Notes Payable	12,325	12,325
Capital Leases	248,075	242,820
Installment Purchases	55,529	67,499
Regional Jail Reimbursement Agreements	28,974	31,017
Compensated Absences [2]	489,575	484,330
Pension Liability [2]	439,372	284,081
Virginia Public Broadcasting Board	21,960	23,840
Industrial Development Authority Obligations [3]	37,800	42,490
Other Liabilities [2]	20,284	20,104
Total Tax Supported Debt	$ 4,867,644	$ 4,511,495
Debt Not Supported By Taxes [2]		
Moral Obligation / Contingent Liability Debt		
Virginia Resources Authority	$ 534,736	$ 442,478
Virginia Housing Development Authority	1,278,338	1,357,976
Virginia Public School Authority - 1991 Resolution	432,117	459,772
Virginia Public School Authority - 1997 Resolution	1,242,895	994,640
Virginia Public School Authority - Equipment Technology Notes	99,860	55,765
Total Moral Obligation/Contingent Liability Debt	$ 3,587,946	$ 3,310,631
Other Debt Not Supported By Taxes		
9(d) Higher Education	$ 421,125	$ 360,535
Virginia College Building Authority - Pooled Bond Program	311,285	250,170
Virginia College Building Authority - Private College Program	368,905	268,490
Virginia Public School Authority - 1987 Resolution	286,605	332,090
Virginia Public School Authority - Stand Alone Program	126,114	144,110
Virginia Public School Authority - Equipment Notes	51,335	85,695
Virginia Public School Authority - 1990 Insured Resolution	18,145	20,025
Virginia Housing Development Authority	4,778,204	4,352,311
Virginia Port Authority	93,325	93,325
Virginia Equine Center	16,145	5,645
Virginia Commonwealth University Health System Authority	0	82,260
Hampton Roads Sanitation District	152,978	161,800
Virginia Biotechnology Research Park Authority	74,975	15,745
Virginia Resources Authority	223,837	219,865
Pocahontas Parkway Association Bonds	418,850	405,460
Federal Highway Reimbursement Anticipation Notes	375,000	375,000
Notes Payable	32,209	260,221
Other Long-Term Debt	332,142	27,090
Total Other Debt Not Supported By Taxes	$ 8,081,179	$ 7,459,837
Total Debt of the Commonwealth	$ 16,536,769	$ 15,281,963

Source: Department of the Treasury and Department of Accounts

(1) Voter approved

(2) NOT INCLUDED IN DEBT CAPACITY MODEL

(3) Newport News Industrial Development Authority for Virginia Advanced Shipbuilding & Carrier Integration Center

Tax-Supported Debt Issuances in Fiscal Year 2003
As of December 31, 2002

Issuer	Date Issued	Amount
Virginia Aviation Board Airport Improvement Note	July 2002	$ 6,600,000
Virginia Port Authority Commonwealth Port Fund Revenue Bonds (2002 Resolution) Series 2002	July 2002	$ 135,000,000
Virginia Public Building Authority, Public Facilities Revenue Bonds, Series 2002A	September 2002	$ 55,000,000
Commonwealth Transportation Board, Commonwealth of Virginia Transportation Contract Revenue & Revenue Refunding Bonds (Route 28 Project), Series 2002	October 2002	$ 120,643,667
Commonwealth of Virginia General Obligation Bonds & Refunding Bonds, Series 2002	October 2002	$ 223,730,000

Tax-Supported Debt Issuances in Fiscal Year 2003
As of December 31, 2002
(continued)

Issuer	Date Issued	Amount
Commonwealth Transportation Board, Commonwealth of Virginia Transportation Revenue & Refunding Bonds, Series 2002A (Northern Virginia Transportation District Program) & Series 2002B (Route 58 Corridor Development Program)	November 2002	$ 223,705,000

Commonwealth Debt

Outstanding Tax-Supported Debt
As of December 31, 2002*
(Dollars in Thousands)

Tax-Supported Debt Included in the Model [1]		
9(b) General Obligation Bonds		$452,060
Bonds	$452,060	
Commercial Paper	0	
9(c) Revenue-Supported GOBs		$524,274
Higher Education	$397,457	
Transportation	$118,827	
Parking Facilities	$7,990	
Commercial Paper	0	
9(d) Obligations		$3,160,988
Transportation Board	$1,120,814	
Virginia Public Building Authority[2]	945,361	
Port Authority	229,060	
Virginia College Building Authority Equipment	9,165	
Virginia College Building Authority 21st Century	354,890	
Bonded Capital Leases and Lease Revenue Bonds[3]	310,330	
Virginia Aviation Board	6,460	
Regional Jail Reimbursement Agreements	28,974	
Transportation Notes Payable	12,325	
Capital Leases	88,080	
Installment Purchases	55,529	
Total Tax-Supported Debt Included in Model		$4,137,322
Additional Long-Term Obligations Included in the CAFR But Not Included in the Model		
Long-Term Obligations Not Included in Model		$949,231
Compensated Absences	$489,575	
Pension Liability	439,372	
Other Long-Term Liabilities	20,284	
Total Tax-Supported Debt (CAFR Plus Subsequent Issuance)		$5,086,553

(1) June 30, 2002 Balance Plus Fiscal Year 2003 Issuances and principal payments through December 31, 2002.

(2) Net of unamortized discount and deferral on debt defeasance.

(3) Bonded Capital Leases include the capital lease obligations supporting lease revenue bonds for Innovative Technology Authority, Virginia Biotechnology Research Park Authority, Big Stone Gap Redevelopment and Housing Authority, Norfolk Redevelopment and Housing Authority, Brunswick County Industrial Development Authority, Norfolk Industrial Development Authority, Newport News Industrial Development Authority and the Industrial Development Authority of the City of Harrisonburg.

*Preliminary and unaudited

Commonwealth Debt

Authorized But Unissued Tax-Supported Debt as of December 31, 2002*

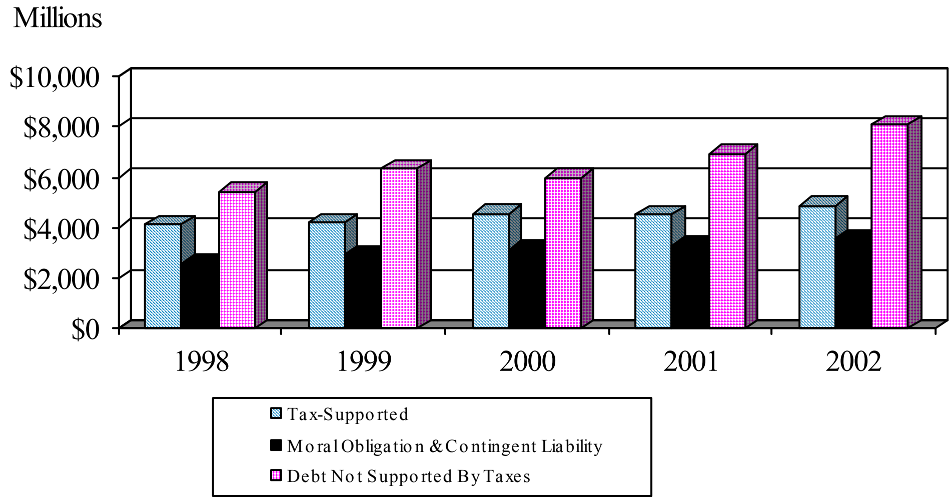
Dollars in Thousands

Section 9(b) Debt:	$	1,019,000
Section 9(c) Debt:		
Higher Education Institutions Bonds	$	128,140
Section (9d) Debt:		
Transportation Contract Revenue Bonds (Rt. 28)	$	0
Transportation Revenue Bonds (Rt. 58)		0
Transportation Revenue Bonds (Northern Virginia Transportation District Program)		97,100
Virginia Public Building Authority - Projects		255,953
Virginia Public Building Authority - Jails & Juvenile Detention Facilities		54,758
Virginia College Building Authority - 21st Century Equipment		70,000
Virginia College Building Authority - 21st Century Projects		297,870
Subtotal 9(d) Debt:	$	775,681
Total	$	1,922,821

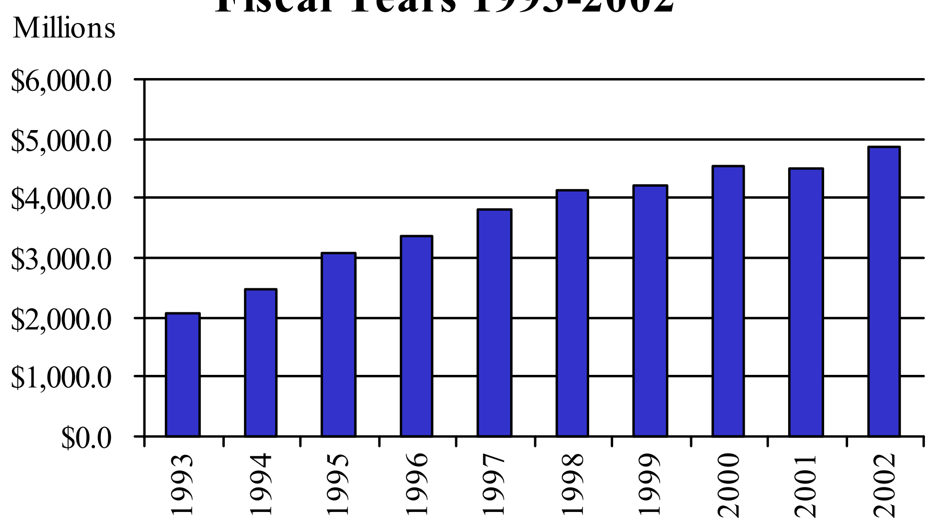
*Preliminary and unaudited

Commonwealth Debt

Outstanding Commonwealth Debt
Fiscal Years 1998-2002

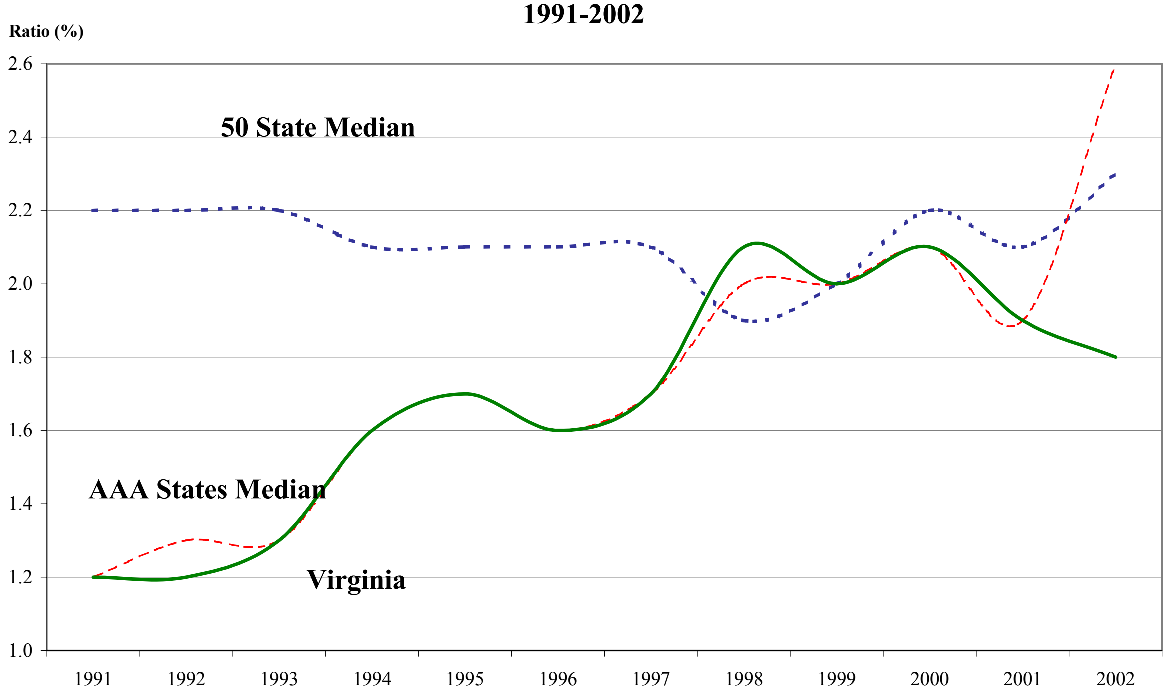


Outstanding Tax-Supported Debt
Fiscal Years 1993-2002



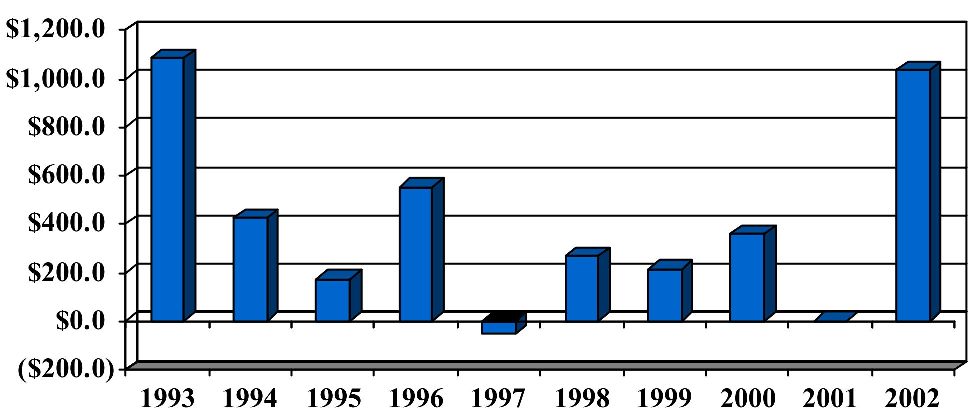
Commonwealth Debt

Net Tax-Supported Debt as a Percentage of Personal Income
Virginia vs Moody's U.S. Median and Other AAA States
1991-2002



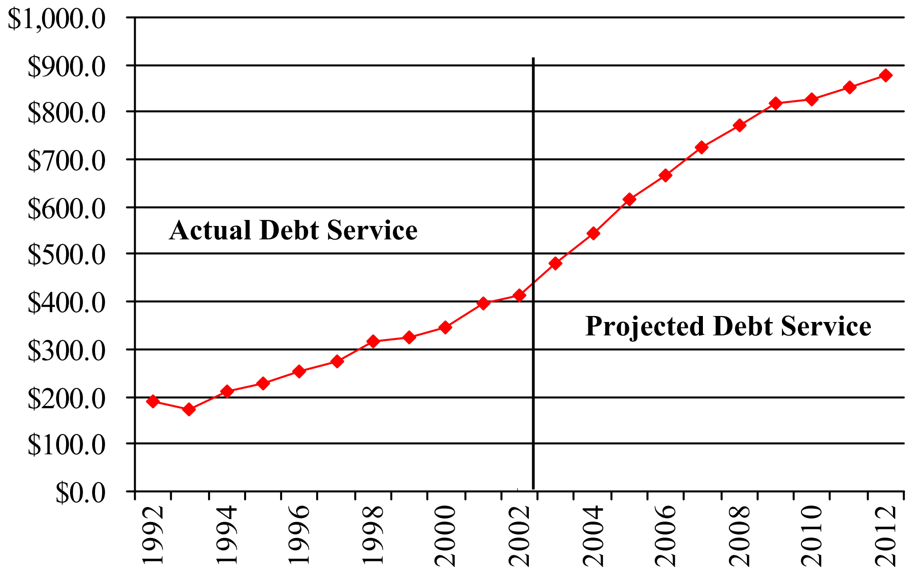
Source: Moody's Investors Service

Tax-Supported Debt Authorizations
Fiscal Years 1993-2002

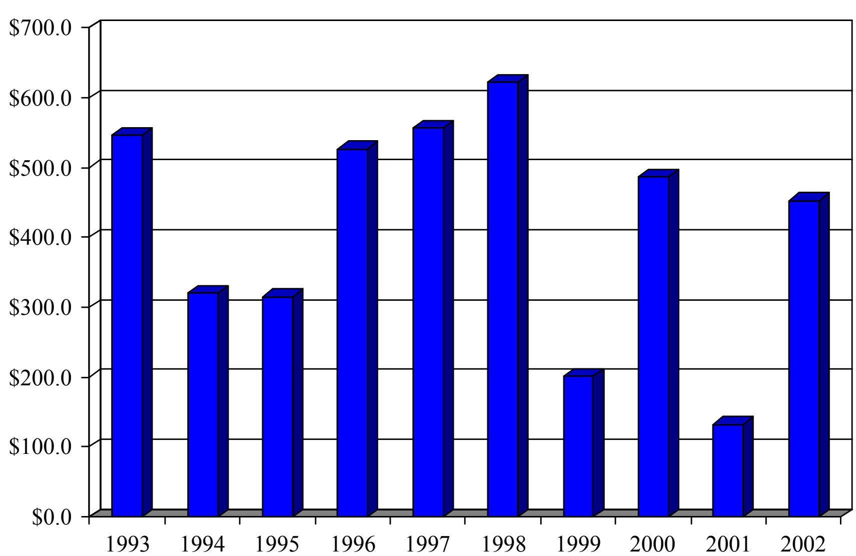


Commonwealth Debt

Tax-Supported Debt Service:Actual and Projected
Fiscal Years 1992 - 2012



Trend in Tax-Supported Debt Issuance
Fiscal Years 1992 - 2001



AAA/Aaa/AAA State Debt Burdens
1995 - 2002

AAA/Aaa/AAA STATE DEBT BURDENS FROM 1995-2002
PROVIDED BY MOODY'S INVESTORS SERVICE

Net Tax-Supported Debt per Capita (1)

	2002	2001	2000	1999	1998	1997	1996	1995
Delaware	1,650	1,616	1,544	-	-	-	-	-
Maryland	879	819	895	953	849	875	832	828
Georgia	804	679	697	679	647	669	-	-
Utah	708	634	693	705	560	301	310	271
Minnesota	576	546	513	525	489	520	-	-
South Carolina	615	398	347	321	309	305	287	-
VIRGINIA	**566**	**537**	**570**	**516**	**519**	**414**	**366**	**370**
Missouri	347	288	245	233	238	276	255	232
AAA Median	662	590	632	525	519	414	310	321
AAA Average	768	690	688	562	516	480	410	425

(1) Population is based on Census data from one year prior to each respective year's debt analyzed.

Net Tax-Supported Debt as Percent of Personal Income (2)

	2002	2001	2000	1999	1998	1997	1996	1995
Delaware	5.3	5.5	5.2	-	-	-	-	-
Utah	3.0	2.8	3.3	3.6	3.1	1.7	1.8	1.7
Georgia	2.9	2.6	2.8	2.9	2.9	3.1	-	-
Maryland	2.6	2.6	3.0	3.3	3.1	3.3	3.4	3.5
South Carolina	2.5	1.8	1.6	1.6	1.6	1.6	1.6	-
VIRGINIA	**1.8**	**1.9**	**2.1**	**2.0**	**2.1**	**1.7**	**1.6**	**1.7**
Minnesota	1.8	1.8	1.9	2.0	1.9	2.2	-	-
Missouri	1.3	1.1	1.0	1.0	1.0	1.3	1.3	1.2
AAA Median	2.6	2.3	2.5	2.0	2.1	1.7	1.6	1.7
AAA Average	2.7	2.5	2.6	2.3	2.2	2.1	1.9	2.0

(2) Personal income is based on Census data from two years prior to each respective year's debt analyzed.

Exhibit D

Moral Obligation Debt
And
Contingent Liability Debt

Moral Obligation Debt

- Definition of Moral Obligation Debt:

  Moral obligation debt refers to a bond issue structure originally created in the 1960s and utilized primarily by state housing finance agencies or state-administered municipal bond banks as additional credit enhancement for revenue bond issues. A government's moral obligation pledge provides a deficiency make-up for bondholders should underlying project revenues prove insufficient. The mechanics involve funding a debt service reserve fund when the bonds are issued. If a revenue deficiency exists, reserve fund monies are used to pay bondholders. The issuer then informs the legislative body requesting that it replenish the reserve fund before subsequent debt service is due. The legislative body "may", but is not legally required to, replenish the reserve fund.

- Rating agencies do not include in tax-supported debt ratios as long as bonds are self-supporting.

- Commonwealth Moral Obligation Debt Issuers:

  –Virginia Resources Authority

  –Virginia Housing Development Authority

  Multi-Family Housing Bonds

  –Virginia Public School Authority - 1991 Resolution

Moral Obligation Debt

Issuer	Statutory Limit	Outstanding At June 30, 2002	Available Authorization
Virginia Resources Authority	$ 900,000	$ 534,736	$ 365,264
Virginia Housing Development Authority	1,500,000	1,278,338	221,662
Virginia Public School Authority	800,000	432,117	367,883
Total	$3,200,000	$2,245,191	$ 954,809

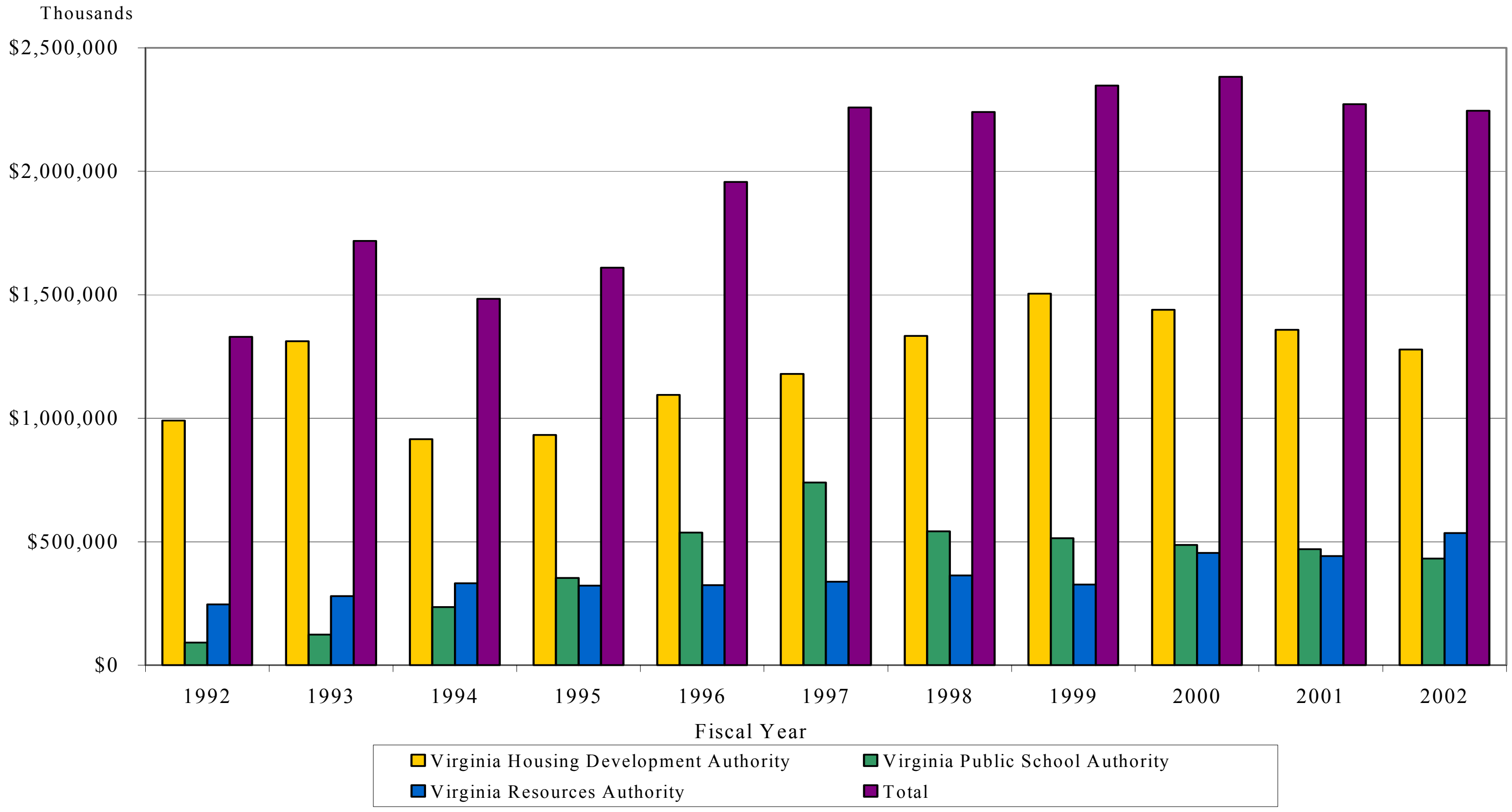
Dates upon which issuers expect to meet or exceed statutory borrowing cap:

VHDA:	N/A	- Alternative financing programs initiated in fiscal year 1999 do not require use of moral obligation. Does not expect to issue additional moral obligation debt.
VRA:	FY 2006	- Cap raised from $550 million to $900 million in 2001. Cap is not expected to be exceeded during the next biennium.
VPSA:	N/A	- Created the 1997 Resolution for pooled bond program. Does not expect to issue additional debt under 1991 Resolution.

Bond Ratings:	Fitch	Moody's	S&P
VHDA (Multi-Family):	N/R	Aa1	AA+
VRA:	N/R	Aa2	AA
VPSA (1991 Resolution):	AA+	Aa1	AA+

Moral Obligation Debt

Outstanding Moral Obligation Debt
Fiscal Years 1992 - 2002



(1) 1992-1998 stated net of unamortized discounts, premiums and issuance costs.
(2) 1999-2002 stated at par.

Contingent or Limited Liability Debt

- The only non-tax-supported debt obligations for which the Commonwealth has a contingent or limited liability are those which utilize a "sum sufficient appropriation" (SSA) to pay debt service.

- SSA was previously only used on certain revenue bonds issued by the Virginia Public School Authority under its 1997 Resolution. The Virginia Public School Authority had $1,242,895,000 of 1997 Resolution bonds outstanding as of June 30, 2002.

- The 2000 Appropriation Act (Chapter 1073) authorized the use of SSA for certain revenue notes issued by the Virginia Public School Authority under its Educational Technology Program. The SSA was codified during the 2001 General Assembly session. The Virginia Public School Authority issued its first series of notes enhanced by the SSA in the Spring of 2001. Notes outstanding as of June 30, 2002 equal $99,860,000.

Bond Ratings:	Fitch	Moody's	S&P
VPSA (1997 Resolution):	AA+	Aa1	AA+
VPSA (Equipment Technology Notes):	AA+	Aa1	AA+

Moral Obligation Debt

Excess Capacity Sensitivity

- The current Model solution provides for two years of excess capacity remaining at end of the 10-year Model period (excluding moral obligation debt) which results in annual debt capacity of $481.92 million.

Total Moral Obligation Debt Sensitivity

- If the Model solution is altered to assume conversion of the entire $3.2 billion statutory cap for all moral obligation debt to tax-supported debt, the following annual debt capacity figures are produced:
  - Debt service as a percentage of revenues rises above 5% in fiscal year 2005 and hits its peak of 5.58% in fiscal year 2006. Debt service as a percentage of revenues ultimately falls below 5% in fiscal year 2010. As a result, there would be no capacity to issue additional debt until fiscal year 2010.
  - Annual debt issuance capacity is $563.72 million is fiscal years 2010 through 2012, peaking at 4.89% of revenues in 2010.

VHDA Sensitivity

- If the Model solution is altered to assume conversion of the VHDA's total outstanding moral obligation debt (as of 6/30/02) to tax-supported debt, the following annual debt capacity figures are produced:
  - Debt service as a percentage of revenues peaks at 4.99% in fiscal year 2009.
  - $319.71 million of annual debt issuance capacity is available through fiscal year 2009. Capacity increases in fiscal years 2010 through 2012 allowing $453.96 million of debt issuance capacity.

Moral Obligation Debt

VRA Sensitivity

- If the Model solution is altered to assume conversion of the VRA's total statutory moral obligation cap of $900 million to tax-supported debt, the following annual debt capacity figures are produced:
  - Debt service as a percentage of revenues peaks at 4.99% in fiscal year 2009.
  - $382.42 million of debt issuance capacity is available through fiscal year 2009. Capacity increases to $432.85 million in fiscal years 2010 through 2012.

VPSA Sensitivity

- If the Model solution is altered to assume conversion of the VPSA's total outstanding moral obligation debt (as of 6/30/02) to tax-supported debt, the following annual debt capacity figures are produced:
  - Debt service as a percentage of revenues peaks at 4.94% in fiscal year 2009.
  - $442.22 million of annual debt issuance capacity is available for the ten-year Model period.

Sum Sufficient Appropriation Sensitivity

VPSA Sensitivity

- If the Model solution is altered to assume conversion of the VPSA's total outstanding debt secured by a sum sufficient appropriation (as of 6/30/02) to tax-supported debt, the following annual debt capacity figures are produced:
  - Debt service as a percentage of revenues peaks at 4.99% in fiscal year 2009.
  - Annual debt issuance capacity of $309.04 million is available through fiscal year 2009. For fiscal years 2010 through 2012, debt capacity would increase to $457.57 million per year.